

Message Text

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SUBJECT: INCREASE IN MINIMUM SALARY FOR 1974

1. THE MINIMUM SALARY IN BRAZIL HAS BEEN INCREASED BY 20.76 PERCENT EFFECTIVE MAY 1, ACCORDING TO PRESIDENTIAL DECREE ISSUED APRIL 29. HIGHEST MONTHLY MINIMUM SALARY WHICH IS APPLICABLE IN FEDERAL DISTRICT, AND THE STATES OF SAO PAULO, GUANABARA, MINAS GERAIS, AND RIO, HAS BEEN BOOSTED TO CR\$376.80 (US\$57.84 AT CURRENT EXCHANGE RATE). LOWEST MONTHLY SALARY WHICH IS APPLICABLE IN THE STATES OF MARANHAO, PIAUI, CEARA, RIO GRANDE DO NORTE, PARAIBA, ALAGOAS, SERGIPE, PARTS OF PERNAMBUCO AND BAHIA AND THE TERRITORY OF FERNANDO DE NORVONHA HAS BEEN INCREASED TO CR\$266.40 (US\$40.89). MINIMUM SALARY PREVAILING IN OTHER AREAS RANGES BETWEEN HIGHEST AND LOWEST RATES.

COMMENT: 2. DETAILED DATA INDICATING PORTION OF LABOR FORCE CURRENTLY RECEIVING MINIMUM SALARY ARE NOT AVAILABLE. ACCORDING TO THE 1970 CENSUS, 40 PERCENT OF WORK FORCE RECEIVED AN INCOME WHICH WAS EQUAL TO OR LESS THAN MINIMUM SALARY. RECENT INDICATIONS, WHICH INCLUDE WAGE SURVEYS DONE BY PRIVATE ENTITIES AND REPORTED SCARCITY OF WORKERS IN SOME SECTORS OF THE ECONOMY SUCH AS CONSTRUCTION INDUSTRY, SEEM TO INDICATE A DOWNWARD TREND

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OR PORTION OF WORKING POPULATION RECEIVING MINIMUM SALARY OR LESS.

3. THE BASIS OBJECTIVE OF THESE ANNUAL ADJUSTMENTS IN THE MINIMUM SALARY IS, IN THEORY, TO PROTECT THE LOWEST LEVEL OF WAGE EARNERS AGAINST HIGH RATES OF INFLATION. IN PRACTICE, HOWEVER, THE FORMULA USED BY THE GOB TO DETERMINE THESE ANNUAL SALARY INCREMENTS HAS NOT ALWAYS PERMITTED MINIMUM SALARIES TO KEEP PACE WITH INFLATION. SINCE 1964 WHEN THE PRESENT SYSTEM WENT INTO EFFECT, AVERAGE MINIMUM SALARIES IN REAL TERMS DROPPED FROM 1964 TO 1968, AND INCREASED MODERATELY THEREAFTER.

4. THE GOB'S SYSTEM OF DETERMINING THESE ANNUAL MINIMUM SALARY ADJUSTMENTS SEEMS TO WORK MORE EFFECTIVELY IN THE DOWNWARD PHASE OF THE INFLATIONARY CYCLE THAN IT DOES ON THE UPWARD PHASE. (THE FORMULA WENT INTO EFFECT WHEN INFLATION WAS AT AN ANNUAL RATE OF 100 PERCENT.) IN 1974, FOR THE FIRST TIME SINCE THE SYSTEM HAS BEEN IN OPERATION, THE RATE OF INFLATION IS EXPECTED TO EXPERIENCE A SUBSTANTIAL UPWARD REVERSAL. THIS PRESENTS THE GOB WITH A VERY DIFFICULT DILEMMA. FULL COMPENSATION IN SETTING THE MINIMUM SALARY TO THE EXPECTED RATE OF INFLATION COMPENSATING FOR THE EXPECTED RATE OF INFLATION, THE AVERAGE MINIMUM SALARY WILL MOST LIKELY GO DOWN IN REAL TERMS. THE GOB HAS APPARENTLY AGREED TO GO PART WAY IN PROTECTING THE MINIMUM SALARY AGAINST INFLATION. BUT TO OUR JUDGMENT, IT HAS NOT GONE FAR ENOUGH IN LIGHT OF THE ANTICIPATED INFLATION. ALTHOUGH THE 20.76 PERCENT MINIMUM SALARY ADJUSTMENT JUST APPROVED REPRESENTS THE FIRST SUBSTANTIAL REVERSAL OF THE DOWNWARD TREND IN THE ANNUAL RATES OF INCREASE, WE EXPECT, GIVEN THE ANTICIPATED HIGH RATE OF INFLATION OF ABOUT 25 PERCENT THIS YEAR, THE REAL MINIMUM SALARY TO GO DOWN IN 1974.
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